



**JOINT LEGISLATIVE AUDIT  
& REVIEW COMMISSION**  
OF THE VIRGINIA GENERAL ASSEMBLY

## **Semi-Annual VRS Investment Report July 2001**

As of April 30, 2001, the market value of the VRS pension fund was \$38.2 billion. For the one-, three- and five-year periods, the fund's performance exceeded established benchmarks for the period ending April 30, 2001. The VRS' investment returns for the one and three-year period fell short of the actuarial assumed investment return of eight percent but remain well above the assumption for the five-year period.

It has been an extremely volatile year for the equity markets with returns for the Russell 3000 down 13 percent over the last 12 months and non-US markets down over 16 percent over the same period. The public equity program continues to be VRS' largest asset class comprising more than \$25 billion. Even in this difficult market environment VRS' domestic public equity program has exceeded its established performance benchmark for the one-, three- and five-year periods.

The non-US portion has not fared as well in these markets, lagging its benchmark in the one and three-year periods while still outperforming over the longer term, five-year period. These markets followed the lead of the US market with the addition of weak currencies contributing to the negative returns.

The impact of VRS' private equity program on the total fund's performance continues to be substantial. VRS invests in private equity to accomplish two primary objectives - to provide enhanced returns relative to the public equity program and to diversify the overall retirement fund. While private

### **Profile: Virginia Retirement System Investments**

**Market Value of Assets: \$38.2 billion**

**Number of External Managers:**

**Public Equity – 21    Fixed Income – 4**

**Number of External Investment Accounts:**

**Public Equity – 29    Fixed Income – 5**

**Estimated FY 2001 Investment Expenses:**

**\$103.2 million (27 basis points)**

**Estimated FY 2001 Investment Department Operating Expenses:**

**\$6.3 million (1.6 basis points)**

**Number of VRS Investment Department Staff: 34 positions (3 vacant)**

#### **Total Return on Investments**

<i>10 years</i>	<i>5 years</i>	<i>3 years</i>	<i>1 year</i>
<b>11.8%</b>	<b>12.3%</b>	<b>6.8%</b>	<b>-3.4%</b>

#### **Performance/Intermediate Benchmarks**

<small>(Time Periods Ending 4/30/01)</small>	<b>11.2%</b>	<b>5.6%</b>	<b>-5.7%</b>
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### **Investment Policy Indicators (as of April 30, 2001)**

<b>Asset Class</b>	<b>Asset Allocation (% of Total Assets or \$ Amount)</b>		<b>Asset Allocation (% of Asset Class)</b>		<b>Type of Management (% of Asset Class)</b>	
	<b>Target</b>	<b>Actual</b>	<b>Domestic</b>	<b>International</b>	<b>External</b>	<b>VRS</b>
<b>Public Equity</b>	<b>63.3%</b>	<b>63.0%</b>	<b>76.0%</b>	<b>24.0%</b>	<b>85%</b>	<b>15%</b>
<b>Fixed Income</b>	<b>25%</b>	<b>24.7%</b>	<b>98.0%</b>	<b>2.0%</b>	<b>66%</b>	<b>34%</b>
<b>Private Equity</b>	<b>\$2.8 billion</b>	<b>\$2.8 billion</b>	<b>92.8%</b>	<b>7.2%</b>	<b>100%</b>	<b>0%</b>
<b>Real Estate</b>	<b>\$1.7 billion</b>	<b>\$1.7 billion</b>	<b>95.0%</b>	<b>5.0%</b>	<b>100%</b>	<b>0%</b>

**Table 1**  
**VRS Investment Performance**  
**for Periods Ending April 30, 2001**

Program/ <i>Performance Objective</i>	Fiscal Year to Date	Prior 1 Year	Prior 3 Years	Prior 5 Years
Total Fund	-6.0%	-3.4%	6.8%	12.3%
<i>VRS Intermediate Benchmark</i>	-6.5%	-5.7%	5.6%	11.2%
Domestic Equity	-11.3%	-11.3%	3.7%	13.6%
<i>Russell 3000</i>	-13%	-13.0%	4.9%	14.5%
International Equity	-20.2%	-19.6%	-0.2%	2.2%
<i>Salomon BMI Global ex U.S.</i>	-17.2%	-16.1%	0.3%	1.3%
Fixed Income	10.5%	12.6%	6.6%	7.7%
<i>Lehman VRS Custom</i>	10.2%	12.4%	6.5%	7.6%
Private Equity	-9.6%	14.1%	41.3%	39.1%
<i>Russell 3000 plus 250 Basis Points</i>	-10.5%	-10.5%	7.4%	17.0%
Real Estate	9.7%	12.7%	7.9%	10.7%
<i>Blend of NCREIF and NAREIT Indexes</i>	12.0%	14.7%	12.1%	12.7%
Note: Treasury Inflation Protection Securities (TIPS) included in the December 2000 performance data have been sold, so performance data for TIPS are no longer shown.				
Source: JLARC staff presentation of data provided by VRS (Mellon CRS Performance Report Generator).				

equity can provide higher returns, as was the case through December 2000 when the fund had returns of 88.6 percent for the year, it also has higher risks, is less liquid than public equity, and typically has higher fees than the traditional asset classes. This year the higher risk is readily apparent as the private equity program has returned -9.6 percent for the fiscal year to date as a result of the correction in the technology sector of the market. Longer term, however, the private equity program continued to greatly exceed its benchmark for the one-, three- and five-year periods.

Both the Real Estate and Fixed Income programs provided necessary fund diversification, with positive returns of 12.7 percent and 12.6 percent, respectively, for the one-year period and both outperforming equities over the three-year period. Additionally, the Fixed Income program has exceeded its benchmarks in all periods.

The Board of Trustees completed its quadrennial review of the fund's asset allocation policy in December through an asset/liability study. The Board considered the potential impact of lowering the risk profile of the fund by moving the equity component from the current 70 percent to 60 percent or 50 percent. The asset/liability study included an analysis of the volatility of the contribution rates and funded status in addition to the expected returns of the fund over the next five-,

ten-, and twenty-year periods. It concluded that retaining the current 70/30 risk level would be appropriate. However, the Board did change the asset allocation policy by raising the maximum exposure allowable in alternative investments from 15 percent to 20 percent and by lowering the minimum exposure to public domestic equity from 45 percent to 40 percent.

## OVERSIGHT VRS Report

**VRS Oversight Report** is published periodically by the Joint Legislative Audit and Review Commission (JLARC) in fulfillment of Section 30-78 *et seq.* of the Code of Virginia. This statute requires JLARC to provide the General Assembly with oversight capability concerning the Virginia Retirement System (VRS), and to regularly update the Legislature on oversight findings.

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